

Addressed originally to the County, City, and District Health Officers Association of New York State, this speech on performance budgeting in experimental installations merits the attention of all health administrators.

Performance Budgeting for the Health Department

By DANIEL KLEPAK, M.P.A.

THE DISTINCTION between program budgeting and performance budgeting to me is more than a question of semantics. In my opinion, program budgeting connotes the gathering of costs by program, that is, so much to inoculate children with poliomyelitis vaccine, so much for clinics, so much for nursing services. If you can separate your costs into clearly discernible programs, then you have program budgeting. Performance budgeting, however, goes further than that. Performance budgeting is the relating of program costs to workload information. If you know the total cost for inoculating children with the vaccine, you have program budgeting. If you know how much it costs to inoculate each child, then you have performance budgeting.

Performance budgeting, as a concept, is not new. For many years various governmental jurisdictions—and most large business corporations—have financed their activities in relation

to services rendered rather than according to things to be purchased. One of the earliest installations—and still highly successful—is the system used by the Tennessee Valley Authority.

Performance budgeting received the greatest impetus in government when the Hoover Commission recommended its use throughout the Federal Government. Herbert Hoover is personally credited with devising the name of a budgeting system which concentrated on ends to be achieved by government rather than on means to be employed.

To make the concept of performance budgeting a little clearer as we go along, let's look at some of the budget tables which I worked up, strictly on an experimental basis, for the Rensselaer County (N. Y.) Department of Health.

Some of these breakdowns you might consider out of keeping with the recommended organization of public health practice, but, if you have good organization in your health department, your performance budget will mirror it.

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The Line-Item Budget

A budget for Rensselaer County Health Department as it might look spread out in pro-

gram style is pictured in exhibit 1. The objects of expenditure on the left and the total amount in the last column on the right follow traditional budget form. The account categories are the standard categories used by counties in New York State.

The traditional budget shows what you purchase for your money, that is, the services of so many physicians, so many typists, and so many other types of personnel; so much for pencils, so much for laboratory supplies, so much for X-ray supplies, so much for fuel, and so on. It does not tell you what you do with your money. It doesn't speak in terms of services.

When an administrator plans a program, he must think about how he's going to immunize children or how he's going to run a tuberculosis hospital, not about how many typewriters, pen-

cils, and staples he will have to buy, how much X-ray film his clinics will need, how many bandages and plasters his nurses will apply, or how much fuel, light, and electricity his department will use. Unless he thinks in terms of services, his frame of reference is completely artificial and strait-jacketing.

The traditional budget gives very little indication of what a department or bureau expects to accomplish during the year. The tyranny of the line-item type of budget causes department heads to continue to think in terms of the tools they must use rather than of the programs they must plan and manage.

A Planning Cycle

Performance budgeting is nothing more than a good financial tool. It is not a panacea; it is

Exhibit 1. Distribution of costs for 1955

Objects of expenditure		Cost centers							Totals
		Nursing	Clinics	Sanitation	Laboratory	Social service	Maintenance	Administration	
100	Personal service:								
	Salaries.....	\$82,242	\$18,078	\$42,665	\$37,840	\$8,000	\$7,250	\$46,720	\$242,795
	Temporary service.....			994	200			500	1,694
	Professional fees.....		2,295						2,295
	Board of health.....							1,800	1,800
290-628	Retirement contributions.....	8,635	1,689	4,027	3,537	750	670	4,380	23,688
290-630	Workmen's compensation.....	2,105	402	949	765	178	161	1,039	5,599
200	Equipment:								
	Automobiles.....	5,485	290	2,336				870	8,981
	Office equipment.....							1,922	1,922
	Technical equipment.....		283	75	1,000				1,358
300	Supplies and materials:								
	Laboratory supplies.....				3,600				3,600
	Office supplies.....							1,500	1,500
	Clinic supplies.....		1,256						1,256
	X-ray supplies.....		1,703						1,703
	Maintenance supplies.....						1,500		1,500
	Books and periodicals.....							400	400
	Fuel oil.....						1,500		1,500
	Printing.....				800			500	1,300
400	Other expenses:								
	Light.....						850		850
	Rent.....						2,250		2,250
	Travel (excluding auto expense).....							2,355	2,355
	Auto expense.....	8,420	447	3,543				1,335	13,745
	Telephone.....							2,750	2,750
	Inservice training.....							1,984	1,984
	Laundry.....				100				100
	Miscellaneous and postage.....							2,899	2,899
	Totals.....	\$106,887	\$26,443	\$54,589	\$47,842	\$8,928	\$14,181	\$70,954	\$329,824

¹ Before distribution of laboratory costs.

not a pushbutton system. With performance budgeting, you will still need professional opinion and administrative judgment to run the department, but this approach to budgeting and to planning will help you see where to direct your energies.

In exhibit 2 we see the various cost centers, or activities or programs, of the Rensselaer County Department of Health and the work units that might be used to measure them quantitatively. In performance budgeting, we try to determine measures for what is being done in any of the health department's programs. Here we are talking about measuring services quantitatively and evaluating them quantitatively, not qualitatively.

We don't try to measure every type of work. For example, the multifarious activities of an administrator of a county health department are, in my opinion, either unmeasurable, or they would take so much effort to measure that you would get little return for your effort.

Nor do we measure social service in a county health department where it may be a very small operation. However, in a large mental hospital such as the Hudson River State Hospital at

Exhibit 2. Cost centers and units of measurable work

Code and cost center	Work unit
01 Nursing.....	Visit.
02 Clinics.....	Clinic session.
03 Sanitation.....	{ Inspection.
	{ Weighted inspection. ¹
04 Laboratory.....	{ Test.
	{ Weighted specimen point. ²
05 Social service.....	None. ³
06 Maintenance.....	None. ³
07 Administration.....	None. ³

¹ All inspections classified and weighted according to personnel time spent on each type of inspection.

² New York State Association of Public Health Laboratories has recommended adoption of a uniform weighting system for all public health laboratory procedures. Because all local laboratories will probably adopt it for reporting purposes and the recommended standards are reasonably related to activities at Rensselaer County Laboratory, the system has been adopted.

³ None does not mean that no measurable units exist but rather that incurred costs are so relatively fixed that no useful planning or control purpose would be served by comparing costs with units of work done or that the identification and recording of measurable units of work would be uneconomical compared with possible benefits to be gained.

Poughkeepsie, N. Y., where the State has been installing a performance budget system, social service is a large activity, costing approximately \$100,000. There we measure social service by a yardstick or work unit called a contact, either with a patient or his relatives or his prospective employers.

With exhibit 3 we introduce a new concept to budgeting. Here we have analyzed fixed and variable costs for the county's nursing program. If we had taken 1,000 nursing visits, let's say, and divided them into the total cost of a \$5,000 nursing program, we would have obtained a unit cost of \$5.00 for each visit. But that, we feel, is an erroneous way of thinking. Costs have different properties. Some costs are fixed. Others are variable.

In a tuberculosis hospital, for example, the cost of food increases with every additional patient fed. Food is clearly a variable cost. It increases and decreases with the number of hospital patients. But the salary of a dietitian and the salary of the head of the hospital are truly fixed or overhead costs. Since those costs remain constant regardless of the number of people cared for in a hospital, or the number of people visited in a nursing program, we discriminate, in our budgeting system, between variable and fixed costs.

If your nurses were making 10,000 visits a year, and you were to decrease the number of visits by one-half, to 5,000, you could not get along on half your prior appropriation. Only those costs which vary with workload could be decreased. Similarly, if you enlarged the scope

Exhibit 3. Breakdown of fixed and variable costs: nursing costs

Code and item	Variable	Fixed
100 Personal service:		
Director of nursing.....		x
Supervising nurses (2).....	x	
Public health nurses (17).....	x	
Physiotherapist.....	x	
Stenographers (3).....	x(2)	x(1)
Clerk.....	x	
200 Equipment:		
Automobiles.....	x	x
300 Supplies and materials.....		
400 Other expense:		
Automobile expense.....	x	x

of your program, you would not need an increase in funds in proportion to the size of the increased workload. Your fixed costs would remain relatively constant.

Exhibits 4 and 5 show the 1955 workloads for Rensselaer County's nursing program and the clinic program as they looked in December 1954.

Exhibit 4. Nursing visits forecast for 1955

Type of visit	Number of visits in—			Forecast for 1955	
	1952	1953	1954 ¹	18 PHN's ²	24 PHN's
Maternity.....	2,556	1,683	1,865	2,750	6,000
Health guidance.....	8,581	5,095	5,424	6,550	12,000
Communicable disease ³	6,781	3,696	2,919	4,400	4,400
Chronic disease.....	2,692	3,191	3,341	1,000	1,000
Other noncommunicable disease.....	4,909	3,632	2,046	1,200	1,200
Other neuromuscular skeletal disorders.....	1,968	1,209	1,275	1,200	1,750
School nursing.....	276	355	197	215	215
Totals.....	27,763	18,861	17,077	17,315	26,565

¹ Fourth quarter of 1954 is estimated.

² Staff of 18 public health nurses is basis for forecast; next column shows visits expected with increase in staff.

³ Includes tuberculosis.

Exhibit 5. Clinic workload forecast for 1955

Type of clinic	Total for 1955	Number of clinics per quarter			
		1st	2d	3d	4th
Child health.....	138	30	36	36	36
Tuberculosis screening.....	16	4	4	4	4
Tuberculosis consultation.....	96	24	24	24	24
Diabetes screening.....	240	60	60	60	60
Immunization.....	58	12	22	12	12
Dental hygiene.....	660	165	165	165	165
Totals.....	1,208	295	311	301	301

Exhibit 6. Standard cost data for nursing program, 1955

Code and account		Variable costs		Annual fixed costs
		Work unit	Unit cost	
100	Personal service:			
	Salaries.....	Visit.....	\$4.23	\$9,000
290-628	Retirement contributions.....	Visit.....	.45	843
290-630	Workmen's compensation.....	Visit.....	.11	200
200	Equipment:			
	Automobiles.....	Visit.....	.30	290
300	Supplies and materials.....			
400	Other expenses:			
	Automobile expense.....	Visit.....	.46	455
	Variable cost per unit.....	Visit.....	\$5.55	
	Total fixed costs.....			\$10,788

Exhibit 7. Standard cost data for clinics, 1955

Code and account		Variable costs		Annual fixed costs
		Work unit	Unit cost	
100	Personal service:			
	Salaries.....	Clinic.....	\$11. 24	\$4, 500
	Professional fees.....	Clinic.....	1. 90	-----
290-628	Retirement contributions.....	Clinic.....	1. 05	421
290-630	Workmen's compensation.....	Clinic.....	. 25	100
200	Equipment:			
	Automobiles.....	Clinic.....	. 24	-----
	Technical equipment.....	Clinic.....		283
300	Supplies and materials:			
	Clinic supplies.....	Clinic.....	1. 04	-----
	X-ray supplies.....	Clinic.....	1. 41	-----
400	Other expenses:			
	Automobile expenses.....	Clinic.....	. 37	-----
	Variable cost per unit.....	Clinic.....	\$17. 50	-----
	Total fixed costs.....			\$5, 304

Performance budgeting almost forces the program supervisor to go through a complete planning cycle. He must judge how much work he expects his program will accomplish, what kind of work it will be, and how it will be done. Without such planning, there is little basis for forecasting costs or later for comparing planned operations with actual operations.

Three exhibits—6, 7, and 8—demonstrate the standard costs of a nursing visit, clinic session, and sanitary inspection.

In exhibit 6 we have taken all the costs that

were generated by the nursing program, obtained unit costs on a visit basis for those variable costs described previously, and found that a nursing visit costs \$5.55 in Rensselaer County. In addition, there are fixed costs of \$10,788 for the year 1955.

A standard cost does not reflect what ideally a nursing visit or sanitary inspection should be in Rensselaer County. It simply reflects what is true at that time. In late 1954 it cost the county \$8.65 to make a sanitary inspection.

The fact that unit costs differ is simply an

Exhibit 8. Standard cost data for sanitation activities, 1955

Code and account		Variable costs		Annual fixed costs
		Work unit	Unit cost	
100	Personal service:			
	Salaries.....	Inspection.....	\$5. 39	\$11, 160
	Temporary services.....	Inspection.....	. 17	-----
290-628	Retirement contributions.....	Inspection.....	. 51	1, 046
290-630	Workmen's compensation.....	Inspection.....	. 12	248
200	Equipment:			
	Automobiles.....	Inspection.....	. 35	290
	Technical equipment.....			75
300	Supplies and materials:			
400	Other expenses:			
	Automobile expense.....	Inspection.....	. 53	445
	Distribution:			
	Laboratory service.....	Inspection.....	1. 58	-----
	Variable cost per unit.....	Inspection.....	\$8. 65	-----
	Total fixed costs.....			\$13, 264

Exhibit 9. Operating budget for calendar year 1955

Cost center	Variable costs			Fixed costs	Total costs
	Forecast work units	Allowance per unit	Total		
Nursing.....	17,315 visits.....	\$5. 55	\$96, 099	\$10, 788	\$106, 887
Clinics.....	1,208 clinics.....	17. 50	21, 139	5, 304	26, 443
Sanitation.....	5,845 inspections.....	8. 65	50, 568	13, 264	68, 832
Laboratory:					
Gross budget.....	40,000 tests.....	. 711	28, 440	19, 402	47, 842
Distribution to sanitation.....	—13,000 tests.....	(. 711)	—9, 243	-----	—9, 243
Net budget.....	27,000 tests.....	. 711	19, 197	19, 402	38, 599
Social service.....				8, 928	8, 928
Maintenance.....				14, 181	14, 181
Administration.....				70, 954	70, 954
Totals.....			\$187, 003	\$142, 821	\$329, 824

index of a different type of operation or a more efficient operation. You cannot say that because one standard cost is less than another it is therefore better. Costs simply reflect the fact that one service is different from another. If the services are supposed to be substantially the same, then there should be administrative and professional scrutiny to determine what the difference means. It might mean better service, or it might mean inefficiency, but its meaning, whatever it is, cannot be determined from the budget. Performance budgeting

spotlights the problem. For its solution, you still need trained professional and technical personnel.

Under performance budgeting, the operating budget for a calendar year might appear as tabulated in exhibit 9. Here, instead of listing needs for fuel, pencils, and salaries, you budget as you normally plan your program. The table illustrates a budget for various programs: how much work the Rensselaer County Health Department expected to do in 1955, how much each work unit would cost, the total variable cost,

Selected References

Readers wishing further enlightenment on the application of performance budgeting to health department accounting systems are referred to the following articles which Mr. Klepak has written:

- Performance Budgeting for Hospitals and Health Departments (published by Municipal Finance Officers Association of the United States and Canada, Accounting Publication Series No. 11-6, Chicago, June 1956).

- Financial Tools for Effective Hospital Administration (Hilleboe and James, co-authors; published in *Hospitals, Journal of the American Hospital Association*; part 1 in April 16, 1956, issue, pp. 50-51, 55, and part 2 in May 1, 1956, issue, pp. 36-40).

- Fiscal Research in Public Health (Hilleboe and James, co-authors; published in *Journal of the*

American Public Health Association, July 1955, pp. 906-914).

- Program Accounting Test of the Rensselaer County (N. Y.) Department of Health (published by the Temporary New York State Commission on the Fiscal Affairs of State Government, Albany, N. Y., 1955).

Other useful information on performance budgets may be found in "Performance Budgeting and Unit Cost Accounting for Governmental Units," another publication of the Municipal Finance Officers Association (Accounting Publication Series No. 11-2, Chicago, 1954) and in "Performance Budgeting: Selected References," a bibliography prepared by the United States Bureau of the Budget Library and issued in 1951.

Exhibit 10. Tuberculosis hospital summary performance

Cost center or department of the hospital	Budget estimate	Actual cash expenditures	Difference between amounts budgeted and spent (col. 1—col. 2)	Workload	
				Planned	Actual
	(1)	(2)	(3)	(4)	(5)
Outpatient department.....	\$63, 431	\$64, 174	— \$743	7,500 exams.....	8,492 exams.....
Inpatient care:					
Ward service.....	310, 326	283, 793	26, 533	91,250 patient-days..	88,782 patient-days..
Ancillary professional service.	40, 335	45, 392	— 5, 057		
Surgery.....	103, 819	96, 723	7, 096	225 major operations..	197 major operations..
Laboratory.....	37, 797	37, 786	11	35,000 tests.....	37,152 tests.....
X-ray.....	22, 963	25, 781	— 2, 818	3,350 X-ray exams....	3,439 X-ray exams....
Food service.....	212, 820	205, 054	7, 766	282,052 meals.....	267,774 meals.....
Laundry.....	40, 123	40, 112	11	418,600 pounds.....	407,280 pounds.....
Housekeeping.....	112, 925	105, 666	7, 259		
Maintenance.....	107, 216	105, 757	1, 459		
Power plant.....	76, 678	74, 917	1, 761		
Administration.....	125, 357	121, 359	3, 998		
Totals.....	\$1, 253, 790	\$1, 206, 514	\$47, 276		

the fixed or overhead cost, and the total amount to be requested.

A performance budgeting system is coupled with a statistical and financial reporting system. No accounting or budgetary system is worth anything unless it provides useful information to management.

Values for Administration

An attempt to show the complete operations of a hospital over a year may be seen in exhibit 10. The hospital is Home Folks Tuberculosis Hospital, Oneonta, N. Y., where our division has also set up an experimental performance budget.

Actually, you can't show in one summary table, or on one piece of paper, the complete operations of a large organization and make them definitive and of great value. You would require more than that for an actual reporting system. The sample table is simply intended to illustrate the type of information you can get from performance budgeting. It will show the areas needing further scrutiny.

On the left, in column 1, we note that the outpatient department is authorized to spend \$63,431. It actually spent \$64,174. By subtracting column 2 from column 1 we see that the difference is \$743. That's as far as we go in traditional budgeting systems. But this type of summary report goes further. It shows how much work you said you were going to do.

The hospital planned 7,500 outpatient examinations, but the actual workload was almost 1,000 more. Therefore, by projecting the amount of work planned and the amount of work actually done in terms of the unit cost for a single outpatient examination, we show the planned cost in column 8 and the actual cost in column 9. Column 10 indicates that the hospital should have been able to spend \$6,211 more than budgeted for outpatient work because it performed approximately 1,000 more examinations than forecast. Therefore, column 11 shows the net result is not failure to live within the budget by \$743 but actually a net savings of \$5,468 because in fact the outpatient department did \$6,211 worth of additional work for only \$743.

report for the fiscal year ended March 31, 1955

Standard unit cost (variable)		Workload expressed in terms of cost (workload × unit cost)		Savings or overspending caused by changes in workload (col. 9 - col. 8)	Savings or overspending beyond workload requirements (col. 3 + col. 10)	Cost center or department of the hospital
Original work units	Expressed in patient-days	Planned (col. 4 × col. 6)	Actual (col. 5 × col. 6)			
(6)	(7)	(8)	(9)	(10)	(11)	
\$6. 26	-----	\$46, 951	\$53, 162	\$6, 211	\$5, 468	Outpatient department.
2. 69	\$2. 69	245, 652	239, 010	-6, 642	19, 891	Inpatient care:
					-5, 057	Ward service.
						Ancillary professional service.
206. 05	. 51	46, 362	40, 592	-5, 770	1, 326	Surgery.
. 40	. 16	14, 173	15, 044	871	882	Laboratory.
1. 11	. 04	3, 714	3, 812	98	-2, 720	X-ray.
. 54	1. 84	168, 010	145, 348	-22, 662	-14, 896	Food service.
. 07	. 34	31, 048	30, 208	-840	-829	Laundry.
					7, 259	Housekeeping.
					1, 459	Maintenance.
					1, 761	Power plant.
					3, 998	Administration.
	\$5. 58	\$555, 910	\$527, 176	-\$28, 734	\$18, 542	Totals.

Administrators of health programs undoubtedly are interested in the direct uses of the performance budget. Here, we simply itemize some of them.

For Expenditure Control

Continuous cost consciousness is developed at all levels. Variances from budget show up currently.

“Responsibility accounting” concept places responsibility for cost as well as program control on operating supervisors.

Fixed-variable concept points up how costs should relate to workload.

Use of standard costs encourages the setting of staff performance standards.

Planned and actual workload and costs are compared and analyzed currently.

High-cost operations are spotlighted for study on an administrative management basis.

For Budgeting

Data are available for policy decisions; for example, evaluation of boarding care as compared with institutional care.

Costs may be compared among units or institutions and private agencies, for example, private laundry service as compared with institution laundry service, or production of vaccines in commercial laboratory as compared with public laboratory.

Costs are related to accomplishments and objectives so that evaluation of use of funds is facilitated.

Standards, once they are developed, can be examined throughout the year. Once accepted, the budget process becomes one of making decisions as to extent of the program, for example, the number of patients to be hospitalized or the miles of road to be constructed. In this way, it is possible to even the budget examination process so as to reduce or eliminate the peak rush of budget making.

For Presentation

You can tell at a glance the cost of a program or activity and, in many cases, the cost of each unit.

The budget becomes more informative and understandable.